

SFUND RECORDS CENTER  
88130965

SFUND RECORDS CTR  
2166-01544

**PAC**

**Pacific Airmotive Corporation**

2940 North Hollywood Way  
Burbank, California 91505-1095  
818/842-5171 Telex 677695  
FAA Certified Repair Station 88

ENCLOSED IS INFORMATION  
REGARDING QUESTION # 12  
FOR EPA LETTER MARCH 25, 1988

UNC INCORPORATED  
SCHEDULE OF INSURANCE

1987 - 1988

COVERAGE	UNDERWRITER	POL.#	TERM	LIMITS
Property Damage	Various	Various	12/1/87-88	\$125 Million/Overall Property \$100,000 Deductible \$25,000 Transit Deductible \$125 Million/Flood \$50 Million/Earthquake
Property Damage (Foreign)	Ins. Co. of State of PA	SPIF- 7525913	12/1/87-88	\$7.5 Million
Boiler & Machinery	Chubb	78314345	12/1/87-88	\$25 Million \$5,000 Deductible
Boiler & Machinery (Foreign)	Am. Home Ins. Company	8815731	12/1/87-88	\$7.5 Million
Nuclear Property	ANI	5254	4/1/88-89	\$150 Million/Montville Location \$265,000/Wood River Location
Nuclear Liability	NELIA	NF56 NF7 NF183 NF138 NS132	Continuous	\$100 Million \$30 Million \$1 Million \$50 Million \$15 Million
Pension Tr. Liab.	Natl. Union	1245469	5/1/88-89	\$15 Million
Kidnap & Ransom	Natl. Union	3854832	12/12/87-88	\$10 Million
Crime	Chubb	81212758	4/19/88-89	\$5 Million/Employee \$5 Million/In & Out Premises \$5 Million/Forgery \$25,000/Money Order \$100,000 Deductible
Marine Cargo	INA	493398	Continuous	\$500,000
Workers Comp & Employers Liab.	Natl. Union	9150809	6/1/87-88	\$500,000 B/I per Accident \$500,000 B/I per Disease \$500,000 B/I per Employee





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ENCLOSED IS INFORMATION  
REGARDING QUESTION # 15  
FOR EPA LETTER MARCH 25, 1988

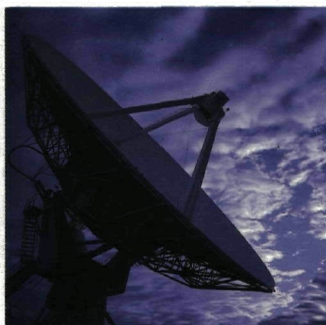
PACIFIC AIRMOTIVE CORPORATION  
BALANCE SHEET AT DECEMBER 31, 1987  
\$(000)

ASSETS	
CASH	\$164
RECEIVABLES:	
TRADE	10,930
ALLOWANCE	(587)
	-----
NET TRADE RECEIVABLES	\$10,343
OTHER RECEIVABLES	17
	-----
TOTAL RECEIVABLES	\$10,360
	-----
INVENTORY - PARTS	\$12,624
WORK IN PROCESS	3,907
VALUATION ALLOWANCES	(1,093)
	-----
NET INVENTORY	\$15,438
	-----
OTHER CURRENT ASSETS	292
	-----
TOTAL CURRENT ASSETS	\$26,254
	-----
PROPERTY PLANT & EQUIPMENT	\$14,261
ALLOWANCE FOR DEPRE. AND AMORT.	(1,245)
	-----
NET PROPERTY PLANT & EQUIPMENT	\$13,016
	-----
GOODWILL & JT-8 DEFERED START UP COST	\$9,586
ALLOWANCE FOR AMORTIZATION	(712)
	-----
NET INTANGIBLE ASSETS	\$8,874
	-----
TOTAL ASSETS	<u>\$48,144</u>

LIATILITIES AND EQUITY	
ACCOUNTS PAYABLE	\$3,602
ACCRUED LIABILITIES	2,053
ENGINE MAINT. RESERVE	110
	-----
TOTAL CURRENT LIABILITIES	\$5,765
	-----
L/T PORTION ENGINE MAINT. RESERVE	28
DUE TO AFFILIATES NON-CURRENT	17,560
	-----
TOTAL LIABILITIES	\$23,353
	-----
ADDITIONAL PAID IN CAPITAL	22,331
RETAINED EARNINGS	2,460
	-----
TOTAL EQUITY	\$24,791
	-----
TOTAL LIABILITIES & EQUITY	<u>\$48,144</u>

2166-01544

Workers Comp & Employers Liab. (New Mexico)	Travelers	701G729	6/1/87-88	\$500,000 B/I per Accident \$500,000 B/I per Disease \$500,000 B/I per Employee
Workers Comp & Employers Liab. (Connecticut)	Travelers	317G766	6/1/87-88	\$500,000 B/I per Accident \$500,000 B/I per Disease \$500,000 B/I per Employee
Workers Comp & Employers Liab. (Foreign)	Natl. Union	8348634	6/1/87-88	\$500,000 B/I per Accident \$500,000 B/I per Disease \$500,000 B/I per Employee
General Liab.	Natl. Union	9150808	6/1/87-88	\$1 Million/Occurrence B/I & PD
Excess Liability	Various	Various	6/1/87-88	\$30 Million
General Liab. (Foreign)	Natl. Union	80205392	6/1/87-88	\$1 Million/Occurrence B/I & PD
Automobile Liability	Natl. Union	9150810	6/1/87-88	\$1 Million per Accident \$5,000 per Person
Directors & Officers	Chubb Natl. Union	81151099	10/18/87-88	\$30 Million/Occurrence TBA
Aviation Hull & Liability	USAIG		10/1/87-88	
Aviation Products Liability	Various	Various	10/1/87-88	\$200 Million



*1986 ANNUAL REPORT*

*Service Through Technology  
in Aerospace/Aviation,  
Telecommunications, and Defense.*



The photographs on the cover illustrate UNC's strategic direction of "Service Through Technology" in three major business segments:

#### ***Aerospace/Aviation***

Provides precision fabrication of jet engine and aircraft components, turbine engine overhaul services, pilot training for U.S. Armed Services and line maintenance and operational support for military training aircraft.

#### ***Telecommunications***

Provides a wide range of international and domestic telecommunication services including telex and data switching; high speed data transmission; leased channel which includes data, voice and facsimile message telegrams; switched voice, direct satellite access and marine radio telex and telegraph.

#### ***Defense***

Provides production and fabrication of major components for reactor propulsion units used in naval submarines and surface vessels, operation of a government owned reactor and engineering, environmental reclamation and remedial action services.

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## Financial Highlights

(In thousands except per share amounts)

For years ended December 31,

	1986	1985	Change
<b>Operations</b>			
Sales and operating revenues	\$572,065	\$352,927	+62.1%
Earnings from:			
Continuing operations	\$ 9,433	\$ 6,433	+46.6%
Discontinued operations	1,081	2,837	-61.9%
Extraordinary items	7,375	8,428	-12.5%
Net earnings	\$ 17,889	\$ 17,698	+ 1.1%
Primary earnings per share from:			
Continuing operations	\$ .54	\$ .30	+80.0%
Discontinued operations	.06	.13	-53.8%
Extraordinary items	.42	.38	+10.5%
Net earnings	\$ 1.02	\$ .81	+25.9%
Fully diluted net earnings per share	.97	.81	+19.8%
Average shares outstanding:			
Primary	17,545	21,926	
Fully diluted	18,547	22,015	

### Financial Position at End of Year

Shares outstanding	15,473	21,819
Capital expenditures	\$ 27,253	\$ 13,409
Working capital	\$ 71,058	\$101,811
Current ratio	1.6 to 1	2.0 to 1
Long-term debt	\$137,373	\$ 78,893
Shareholders' equity	\$ 97,675	\$154,433
Return on average shareholders' equity	14.2%	12.1%
Book value per share	\$ 6.31	\$ 7.08

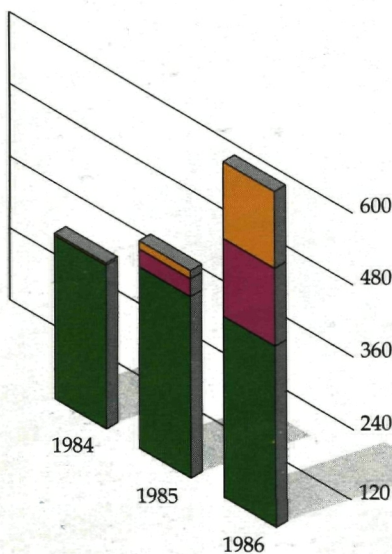
See Notes 2 and 3 of Notes to Consolidated Financial Statements for a description of acquisitions and dispositions of businesses.

See Notes 6 and 11 of Notes to Consolidated Financial Statements for a description of extraordinary items.

### Revenues

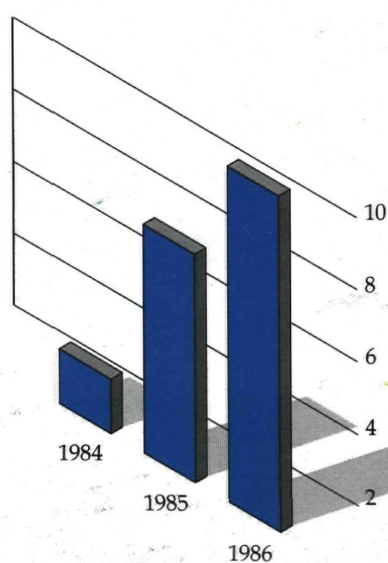
(in millions of dollars)

- ▲ Aerospace/Aviation
- ▲ Telecommunications
- ▲ Defense

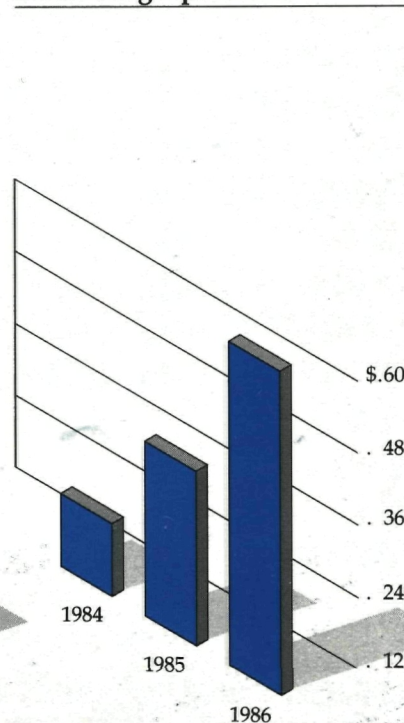


### Earnings From Continuing Operations

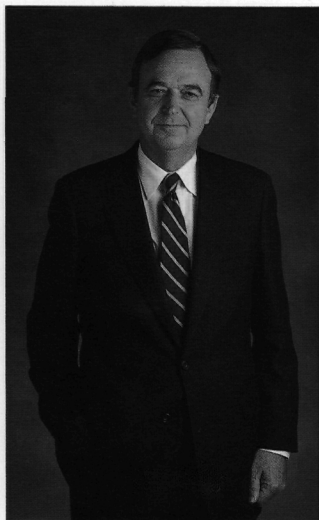
(in millions of dollars)



### Primary Earnings Per Share—Continuing Operations



## To Our Shareholders



Dan A. Colussy, President and Chief Executive Officer

Significant progress was made in 1986 as we continue to build on the major restructuring of UNC that began in 1985. We are pleased to report another year of substantially improved operating results in 1986 with all units reporting improved performance. This includes the first full-year results of TRT Communications, Airwork Corporation and Pacific Airmotive Corporation.

### *Sales and Earnings*

Sales from continuing operations in 1986 increased 62% to \$572.1 million from \$352.9 million in 1985. Operating income increased

218% to \$31.5 million from \$9.9 million in 1985. Earnings from continuing operations were \$9.4 million in 1986 or 47% higher than the \$6.4 million earned in 1985. Primary earnings per share from continuing operations were \$.54 in 1986 compared to \$.30 in 1985, an 80% improvement (a 116% improvement if the \$.05 of non-recurring gain from the sale of our old office building is excluded from 1985). While net earnings were slightly higher at \$17.9 million for 1986 versus \$17.7 million last year, net earnings per share in 1986 increased 26% to \$1.02 compared to \$.81 per share in 1985.

### *Operations Review*

Sales and earnings for UNC's major business segments were all higher than last year while at the same time achieving other important objectives necessary for meeting their long-term goals.

The *Aerospace/Aviation* segment successfully completed the opening and integration of the *UNC Aer-*

*ospace* new 65,000 sq. ft. manufacturing facility located in Norwich, Connecticut while maintaining quality, service and cost performance. Backlogs remain high, and significant work is underway to develop new product lines at UNC Aerospace.

*Airwork Corporation* is well embarked on its expansion program to develop new market opportunities. Through Pacific Airmotive Corporation, it has successfully reentered the large JT8D engine overhaul business by revitalizing the Burbank, California location through an integrated program of facilities upgrading, test cell refurbishment and new marketing campaign directed at the commercial airline market. Early in 1987, Airwork also received a \$55 million five-year contract from Beech Aerospace Services, Inc. for overhaul of PT-6 engines for the military services. This contract marks the beginning of Airwork's new thrust into the military market which is a part of the Company's

aggressive expansion program.

The *Telecommunications* segment continued to increase their share of the international outbound telex market, successfully launched their entry into the growing international voice business through IDDD (International Direct Distance Dialing), and established a firm position in the International Business Satellite market through DSA (Direct Satellite Access) service. TRT also acquired new fiber-optic transatlantic cable capacity in both TAT-8 and TAT-9 designed to accommodate their long-term voice expansion plans. Considerable progress also was made in developing markets for the eventual utilization of the TRT owned orbital satellite positions in the Atlantic and Pacific.

The *Defense* segment, through the *Naval Products Division*, is broadening its product base. In 1986 four separate contracts valued at \$120 million were received for new products that sup-



port the Navy's submarine and surface vessel fleets into the next century. The Division continues to strengthen its competitive position through additional investment in state-of-the-art manufacturing facilities and equipment.

A new subsidiary, *UNC Geotech*, was established in 1986 to develop the emerging market for environmental reclamation and remedial action programs, building on UNC's 20 years' experience managing the Department of Energy's ("DOE") surplus facilities project. This unit received its first contract from DOE for \$245 million over a seven-year period for tailings clean-up and radon abatement projects in several western locations centered in Grand Junction, Colorado.

*UNC Nuclear Industries* continued to maintain its outstanding safety record as operator of the government owned N-Reactor in Hanford, Washington under contract with DOE. In line with DOE's

desire to consolidate all operations in the Hanford complex, UNC's responsibility to operate the N Reactor will phase out in the latter part of 1987.

#### *Shareholder Positions*

During 1986, actions were taken regarding shareholder positions held by Maxxam Properties, Inc. and Chevron Corporation. These actions were undertaken principally because clear indications had been received from analysts, institutions and investment bankers that major financings by UNC would be difficult and perhaps impossible until uncertainties resulting from these large block shareholdings were clarified. In response, UNC purchased 4.4 million shares held by Maxxam at a price below market and issued warrants to Maxxam to purchase UNC shares at a price appreciably above the then current market price. Additionally, in April 1986, UNC's 1984 stock purchase agreement with Chevron Corporation was amended to extend certain restrictive

provisions governing Chevron's actions. This agreement called for UNC to purchase 2 million shares of UNC stock held by Chevron in June 1986 and also extends the time period UNC has available to arrange the orderly disposition of the remaining 6 million Chevron shares to a three-year period ending in July 1989.

#### *Long-Term Financings*

Early in June, two major, simultaneous financings were completed after a 10-city marketing effort with institutions and analysts. The initial offering of \$100 million was over-subscribed, and a total of \$138 million was raised by selling \$69 million of 7½% convertible debentures and \$69 million of 11½% subordinated debentures. An existing issue of 12% subordinated debentures with a restrictive dividend clause and other features was retired as a result of the financing.

#### *Acquisitions*

In October, UNC acquired *Burnside-Ott Aviation* located in Pensacola, Florida. This

company's principal business is simulator pilot training for the U.S. Armed Forces as well as line maintenance and operational support for military training aircraft. Burnside-Ott has sales of approximately \$26 million and operates in a market that is expected to grow substantially over the next decade as the Armed Forces continue the recent trend to out-source pilot training and related support activities.



UNC's newly acquired Burnside-Ott Aviation provides simulator pilot training for U.S. Armed Forces.



### ***Goals and Strategies***

UNC's strategic direction is "Service Through Technology," and our current three business segments represent the core areas in which the Company will continue to grow. We want to be involved in technology because of its inherent growth opportunities. We understand, however, there are pitfalls in technology with the principal one being product obsolescence due to leapfrogging technology. Because of this, our focus is on the service side of technology where we apply technology rather than develop or manufacture technology. With this strategy, we can avoid the major financial exposure of large development expenditures and premature product obsolescence.

UNC operates a highly decentralized company with each of its businesses exercising significant autonomy. A small corporate staff of 35 people establishes and guides overall strategy and direction, and through a strong central

monitoring and control system, keeps track of progress versus our corporate plan. The objective is to maintain a highly entrepreneurial atmosphere throughout the Company.

Our goals include increasing sales and earnings at a 15% compound growth rate and maintaining a balanced operating earnings base spread somewhat evenly over each of our business segments. We intend to focus on profitable growth opportunities with a strong emphasis on return on equity.

### ***Stock Price***

Despite excellent earnings growth and a strong future outlook, the UNC stock price has not shown comparable performance. This has been a disappointment to your management and Board of Directors as I'm sure it has been to all shareholders. We have restructured the Company into a group of sound businesses in growth industries. All of them are profitable today and have prospects to remain profitable in the

future. Our credibility in the marketplace is increasing as more analysts discover UNC's new direction. This spring, we will take another step to reduce the Chevron ownership, a matter that has been a concern to some potential investors.

There is no question, however, that when a company takes a dramatic new direction such as had to be done at UNC, it takes time to build acceptance in the marketplace. This is beginning to happen.

### ***Board of Directors***

Special mention must be noted of the continuing active role the UNC Board of Directors takes in providing counsel to management.

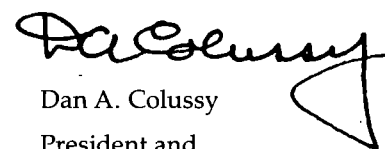
On February 27, 1987, Admiral James L. Holloway, III, U.S. Navy (Retired) joined the UNC Board.

Admiral Holloway served as Chief of Naval Operations prior to his retirement in 1978. His experience and background will be invaluable as UNC addresses new challenges in future years.

### ***Outlook***

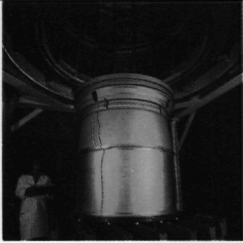



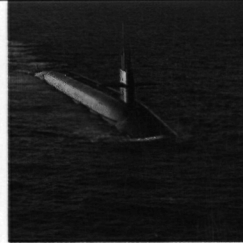
All of the UNC operating

units are profitable and all have excellent prospects for continuing growth in revenues and earnings. We anticipate that 1987 will be the third consecutive year of improvement since the Company has been restructured and given a new direction. We look forward to 1987 and believe it will be another year in which our performance will continue to build credibility and strength for the Company in the marketplace for the overall benefit of UNC's shareholders.



Dan A. Colussy  
President and

Chief Executive Officer  
March 5, 1987

Segment		Business	Recent News	Outlook
<b>Aerospace/Aviation</b>				
UNC Aerospace (formerly Technical Products Division)		Precision fabrication of components for aerospace applications.	Evaluating entry into component repair business.	Aggressive growth to continue from existing and new product offerings.
Airwork Corporation & Pacific Airmotive Corporation		Turbine engine overhaul for business and military aircraft, commercial and commuter airlines and helicopters.	\$55 million long-term military contract received to provide engine overhaul service.	Long-term growth expected from strong entry into commercial large engine and military business.
Burnside-Ott		Simulator pilot training and flight line maintenance and support for U.S. Armed Services.	Seeking teaming opportunities to broaden training service capabilities.	Military training markets to provide strong future growth as Armed Services continue to out-source training needs.
<b>Telecommunications</b>				
TRT Communications, Inc.		International and domestic data and voice communications carrier.	Successfully launched new switched international voice and direct satellite access service.	Rapid growth anticipated from international voice and development of satellite orbital positions.
<b>Defense</b>				
Naval Products UNC Geotech UNC Nuclear Industries		Production and fabrication of major components for reactor propulsion units, engineering, environmental reclamation and remedial action services, and operation of a government owned reactor.	\$120 million in new contracts awarded Naval Products for advanced components. Geotech successfully launched with new \$245 million remedial action contract at Grand Junction, Colorado. DOE contract for the operation of Hanford reactor phasing out.	Broadened product offerings assure accelerating profitable growth at Naval Products. Outstanding growth opportunities exist in environmental reclamation and remedial action business. Pursuing other DOD and DOE contracts.



■ *Aerospace/Aviation* is a rapidly growing segment consisting of UNC Aerospace, Airwork, Pacific Air-motive, Aircraft Turbine Service and the newly acquired Burnside-Ott Aviation Corporation.

*UNC Aerospace* manufactures large complex precision jet engine and aircraft components for the F101 and F110 engines used in the B1b Bomber and the F14 and F16 Fighter aircraft. Their advanced capabilities include computer controlled vacuum brazing and heat treating equipment and a new nondestructive test facility. Contracts have recently been negotiated to develop new alloy manufacturing technologies for future engine applications and prototype work for General Electric's new unducted fan engine.

*Airwork* and *Pacific Airmotive* have leadership positions in the overhaul and repair of jet engines and engine-related accessories. For virtually all engine types serviced, they lead the

industry in using advanced, high technology processes to achieve maximum engine performance at minimum cost and turnaround time.

*Aircraft Turbine Service* overhauls and repairs engine accessories and auxiliary power units on larger business and commercial aircraft. Their modern plant in Bayshore, New York, features state-of-the-art equipment for the highest quality testing, repair and overhaul. These companies expect to capitalize on the excellent growth of the commercial and military markets while maintaining lead positions in the corporate and general aviation markets.

During 1986, *Pacific Air-motive* completed a major facilities renovation program in Burbank, California to service the widely used Pratt & Whitney JT8D engine. This newly renovated facility offers comput-

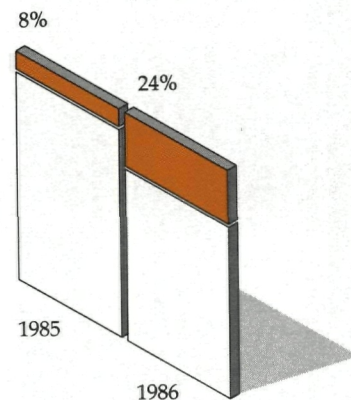
erized communications on its test facility to permit customers to view real time engine performance in their own offices.

*Airwork* upgraded its proprietary repair and refurbishing techniques that restore high-cost used parts at savings of up to 70% of the cost of new parts and introduced a new direct "on-line" computer system to provide immediate customer access to its \$28 million parts inventory.

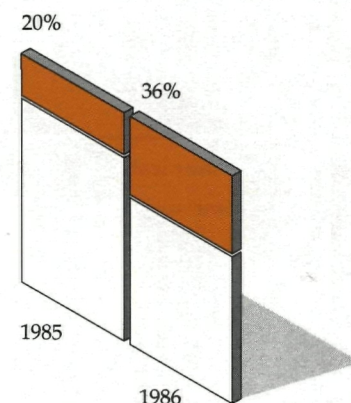
*The Burnside-Ott Aviation Corporation*, acquired in October 1986, provides simulator pilot training for the U.S. Armed Forces, and line maintenance and operational support for military training aircraft. They have pioneered simulator instruction to student military pilots and are well positioned in this fast growing market.

(In thousands except employee data)	1986	1985
Revenues	\$138,786	\$ 28,849
Operating profit	\$ 14,353	\$ 3,900
Total assets	\$175,497	\$142,386
Capital expenditures	\$ 9,465	\$ 7,274
Employees	1,654	955

% of Total Revenue



% of Total Operating Profit



► Burnside-Ott instructors teach U.S. Navy students in TH-57 helicopter flight simulators in Pensacola, Florida.





### ■ TRT Communications

provides worldwide voice and data telecommunications services to government and commercial customers, principally Fortune 1000 industrial companies and financial services organizations.

TRT continues to increase their telex and high speed data traffic volumes, revenues and market share. Over the past six years they have increased their market share of the U.S. outbound international telex market by sixty percent. They also have substantially increased inbound international traffic by employing innovative promotional techniques combined with highly responsive service.

In 1986, TRT began to penetrate the \$5 billion international switched voice market. Agreements were negotiated with domestic carriers to transmit international voice traffic via TRT's digital voice switch in New York City, to a number of countries. Citydirect, an express voice/data service for businesses in New York

City and London, England, also grew substantially. This high quality service is attractive to hotels, multinational corporations, and financial institutions and will be extended to additional countries during 1987.

A significant position in the digital satellite business was achieved in 1986 through TRT's Direct Satellite Access ("DSA")—a service provided by leased Intelsat transponders and advanced earth stations co-owned with COMSAT. A packet switching network was also installed to connect TRT's major operating locations throughout the United States. This network allows major savings in domestic transmission costs.

Progress continues on the new Atlantic and Pacific Ocean fiber optic cable systems. These facilities will provide major private network users with high quality digitized voice and data

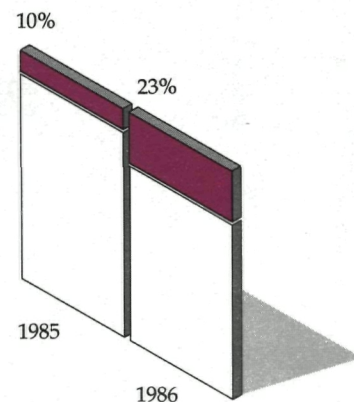
services and expanded switched voice services beginning in 1988.

TRT is a principal shareholder in two companies with certain rights to orbital positions for communications satellites—one company has rights for two orbital positions in the Atlantic and the other has rights for two orbital positions in the Pacific. Satellites planned for these slots will provide extensive telecommunications services to airlines, broadcasters and financial institutions.

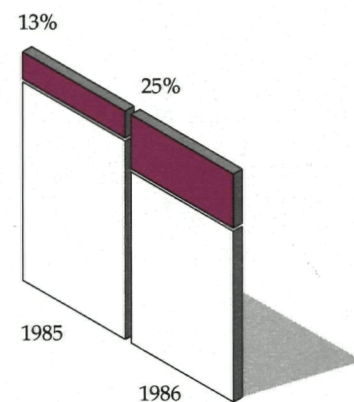
With an expanding presence in the data communications markets, recent entries into the international voice and satellite services markets and a modern, growing telecommunications network, TRT intends to be a strong participant in the rapidly growing market of worldwide telecommunications.

(In thousands except employee data)	1986	1985
Revenues	\$131,974	\$33,537
Operating profit	\$ 10,111	\$ 2,507
Total assets	\$101,048	\$91,213
Capital expenditures	\$ 11,846	\$ 2,487
Employees	724	754

% of Total Revenue



% of Total Operating Profit



▶ TRT's Telex Exchange at the Ft. Lauderdale Operations Center interfaces over 2.5 million international telex calls a month between the customers and TRT's computer network.





■ The Defense business segment consists of the Naval Products Division, newly formed UNC Geotech and UNC Nuclear Industries.

**The Naval Products Division** fabricates major components for reactor propulsion units and related components for the U.S. Navy's submarine and surface vessels. They also provide technology services to customers in the Departments of Energy and Defense.

During 1986, more than \$120 million in new contracts were received from the U.S. Navy, including advanced products to support their submarine fleet into the next century. The Division continues to strengthen its competitive position by investing in state-of-the-art manufacturing facilities to accommodate new programs and products. Important business development initiatives were also undertaken during 1986. These include a cooperative effort with Los Alamos National Laboratory

for technology support of compact reactor programs under the Strategic Defense Initiative. Similar efforts will further expand the customer and product base.

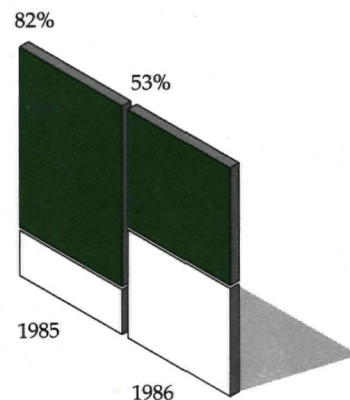
**UNC Geotech** is a company formed in 1986 to provide management and technical support to government and industry clients on environmental reclamation and remedial action programs. This newly formed entity was awarded a \$245 million, multi-year management services contract with the U.S. Department of Energy ("DOE") to operate and maintain their laboratories in Grand Junction, Colorado, and to manage remedial action projects at approximately 4,000 locations in western Colorado, eastern Utah and western South Dakota. *Geotech's* high level of technical and management expertise provides a solid base for increased participation in

the growing reclamation and remedial action industry.

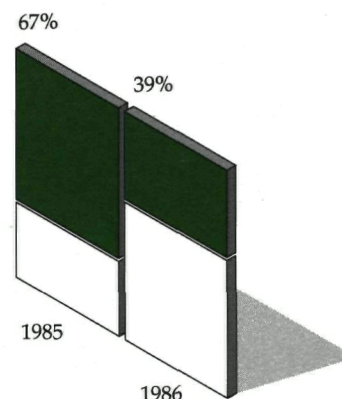
For more than twenty years **UNC Nuclear Industries** has operated the government-owned N-Reactor in Hanford, Washington under contract with DOE. An enviable performance and safety record has been achieved during this period, concluding 1986 with over 3.5 million manhours without a lost-time injury—a DOE record. In 1985, DOE announced that it would competitively bid all Hanford operations, on a scope much beyond UNC's range of activities, to reduce the number of site contractors. In December 1986 DOE awarded Westinghouse Corporation the contract to operate the Hanford complex, including the N-Reactor and, as a result, UNC Nuclear Industries will phase out of this responsibility during 1987.

(In thousands except employee data)	1986	1985
Revenues	\$301,305	\$290,318
Operating profit	\$ 15,833	\$ 13,149
Total assets	\$ 90,576	\$100,564
Capital expenditures	\$ 5,828	\$ 3,436
Employees	3,831	3,857

% of Total Revenue



% of Total Operating Profit



► Major components for reactor propulsion units used in the U.S. Navy's submarine fleet are fabricated at UNC's Naval Products Division in Connecticut.







## Selected Financial Information

(Dollars in thousands except per share amounts)

	Year Ended December 31,				
	1986	1985	1984	1983	1982
<b>Operating Results</b>					
Revenues by business segments					
Aerospace/Aviation	\$138,786	\$ 28,849	\$ 8,591	\$ 5,991	\$ 5,551
Telecommunications	131,974	33,537	—	—	—
Defense	301,305	290,318	268,887	235,801	229,191
Other	—	223	1,367	1,440	8,366
	\$572,065	\$352,927	\$ 278,845	\$243,232	\$243,108
Earnings (loss) from:					
Continuing operations	\$ 9,433	\$ 6,433	\$ 1,632	\$ (6,497)	\$ (6,654)
Discontinued operations	1,081	2,837	(123,870)	(7,534)	(7,421)
Extraordinary items	7,375	8,428	—	1,044	—
Net earnings (loss)	\$ 17,889	\$ 17,698	\$(122,238)	\$(12,987)	\$(14,075)
Primary earnings (loss) per share:					
Continuing operations	\$ .54	\$ .30	\$ .12	\$ (.50)	\$ (.59)
Discontinued operations	.06	.13	(7.02)	(.58)	(.66)
Extraordinary items	.42	.38	—	.08	—
Net earnings (loss)	\$ 1.02	\$ .81	\$ (6.90)	\$ (1.00)	\$ (1.25)
Fully diluted earnings (loss) per share:					
Continuing operations	\$ .51	\$ .30	\$ .12	\$ (.50)	\$ (.59)
Discontinued operations	.06	.13	(7.02)	(.58)	(.66)
Extraordinary items	.40	.38	—	.08	—
Net earnings (loss)	\$ .97	\$ .81	\$ (6.90)	\$ (1.00)	\$ (1.25)
Average number of shares outstanding					
Primary	17,545	21,926	17,638	13,030	11,275
Fully diluted	18,547	22,015	17,638	13,030	11,275
<b>Financial Position Data</b>					
Working capital	\$ 71,058	\$101,811	\$ 149,394	\$ 15,034	\$ 49,109
Current ratio	1.6 to 1	2.0 to 1	2.7 to 1	1.1 to 1	1.5 to 1
Total assets	\$408,963	\$390,305	\$ 302,225	\$420,669	\$470,136
Long-term debt	\$137,373	\$ 78,893	\$ 38,661	\$ 89,646	\$116,929
Shareholders' equity	\$ 97,675	\$154,433	\$ 137,325	\$158,707	\$158,008
Long-term debt to capitalization	58.4%	33.8%	22.0%	36.1%	42.5%
Return on average shareholders' equity	14.2%	12.1%	(82.6)%	(8.2)%	(8.6)%
<b>Other</b>					
Capital expenditures	\$ 27,253	\$ 13,409	\$ 13,947	\$ 12,611	\$ 24,003
Depreciation and amortization	\$ 15,819	\$ 5,288	\$ 2,567	\$ 2,829	\$ 3,087
Employees	6,295	6,175	4,300	4,350	4,350
Shareholders	10,652	11,724	12,692	13,690	13,901

See Notes 2 and 3 of Notes to Consolidated Financial Statements for a description of acquisitions and dispositions of businesses.

See Notes 6 and 11 of Notes to Consolidated Financial Statements for a description of extraordinary items.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

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### Company Restructuring

UNC's businesses in 1986 reflect a fundamental change in strategic direction under a new management team. In mid-1984, the Company received a large infusion of cash from its litigation settlement with Gulf Oil Corporation and related investment by Chevron Corporation in common stock. In 1985, new management redeployed the Company's assets by (i) entering the aviation services and telecommunications businesses through acquisitions of the Airwork Group and TRT Communications, Inc. respectively, (ii) investing additional resources in its precision manufacturing and fabrication businesses, and (iii) discontinuing its heavy industrial tool business. It also disposed of certain assets related to its discontinued minerals business and sold the subsidiaries comprising its offshore products and services business. During 1986, the Company acquired an aviation training and services business and established new subsidiaries engaged in engineering, reclamation and remedial action contract services. It also sold its heavy industrial tool business.

The Company has refocused into three main areas of concentration: aerospace/aviation, telecommunications, and defense. These ongoing operations emphasize providing proprietary services requiring high degrees of technical and engineering expertise.

### Liquidity and Capital Resources

**Changes in Financial Position:** In 1986, cash provided from operations totaled \$35.7 million, including \$2.1 million from discontinued operations and \$0.8 million from net reductions in working capital items and other noncurrent assets and liabilities. Funds were invested in \$27.3 million of additions to property, plant and equipment and the acquisition of a business for \$7.5 million, including related expenses.

During 1986, the Company's financial position was restructured and stabilized by an oversubscribed public offering of \$138 million in new debentures, redemption of \$35 million in old debentures, the repurchase of \$75 million of common shares, and repayment of the \$40 million bank term loan.

**Financial Position:** At December 31, 1986, the Company's working capital was \$71.1 million and its current ratio was 1.6 to 1. Average working capital was 15% of sales and operating revenues in 1986 compared with 36% in 1985. The ratio of cash, marketable securities and receivables to total current liabilities was .9 to 1 at December 31, 1986 and 1.4 to 1 at December 31, 1985.

Long-term debt, including the current portion, was \$139.1 million at December 31, 1986 compared with \$79.8 million at December 31, 1985. The net increase in long-term debt during 1986 results from the issuance of convertible and senior subordinated debentures totaling \$135.2 million, net of discount, offset by payments on other borrowings totaling \$75.8 million. As a percentage of capital employed (long-term debt, deferred income taxes, noncurrent liabilities, minority interest and shareholders' equity), long-term debt was 47% at December 31, 1986 and 27% at December 31, 1985.

At December 31, 1986, the Company had \$35 million available under a revolving credit facility against which no borrowings were outstanding.

Shareholders' equity was \$97.7 million at December 31, 1986 and \$154.4 million at December 31, 1985. The decrease of \$56.7 million was primarily due to purchases of common shares from Chevron Corporation and Maxxam Properties, Inc.

Capital expenditures in 1986 amounted to \$27.3 million compared with \$13.4 million in 1985. It is anticipated that 1987 capital expenditures will be principally financed from internal cash flows and lease arrangements.

**Effects of Inflation:** The Company does not believe that inflation has significantly affected operating results for 1986. As a result of the Company's acquisitions during the past two years, a major part of its inventories and property, plant and equipment are stated at values that approximate current fair values. Most of the Company's other business is performed under contracts which contain escalation clauses that compensate for the effects of inflation.

The Tax Reform Act of 1986 will reduce the effective tax rate applicable to the Company's earnings from continuing operations in 1987 and subsequent. The lower tax rate will correspondingly reduce the benefit realized upon utilization of the unused operating loss carryforwards for financial statement and income tax purposes.

## Results of Continuing Operations

### Overview

The Company's operations have been classified into three segments: Aerospace/Aviation, Telecommunications and Defense. Aerospace/Aviation includes the precision fabrication of aircraft engine components, turbine engine overhaul service for business and military aircraft, commercial and commuter airlines and helicopters, and providing pilot training for the U.S. Armed Services and line maintenance and operational support for military training aircraft. The Telecommunications segment provides international and domestic telecommunications services including telex and data switching; high speed data transmission; leased channel which includes data, voice, and facsimile message telegram; switched voice, direct satellite access and marine radio telex and telegraph. Defense includes the production and fabrication of major components for reactor propulsion units used for naval submarines and surface vessels, the operation of a government-owned reactor, and engineering and environmental reclamation and remedial action services. In December 1986, the U.S. Department of Energy, as a result of a procurement policy change to consolidate operations, announced that it had awarded to another company a contract to operate the complex which includes the reactor operated by UNC's subsidiary. As a result, the Company will phase out of this responsibility during 1987. The reactor operations contract contributed approximately \$186 million of revenues and \$3.6 million of pretax operating profit in 1986. Additional segment data are provided in Note 16 of Notes to Consolidated Financial Statements.

### 1986 Compared with 1985

Revenues increased \$109.9 million in the Aerospace/Aviation segment during 1986 to \$138.8 million. Revenues from the Company's turbine engine service operations, which were acquired in November 1985, were \$111.7 million in 1986 and \$16.2 million for the two month period in 1985. Revenues generated from the fabrication of aerospace components improved \$9.4 million, a 74% increase, resulting from increased deliveries of jet engine components for use in the F-14/F-16 fighter programs and the B-1b bomber programs. Revenues of \$5.0 million were generated by the Company's pilot training and support services business acquired October 31, 1986. Operating income improved \$10.5 million to \$14.4 million in 1986. The increase represents a full year of turbine engine service operations in 1986 versus two months in 1985, growth in the aerospace components fabrication business, and two months' earnings contributed by the acquired pilot training and support services business.

Telecommunications segment revenues were \$132.0 million and operating profit was \$10.1 million in 1986. These operations were acquired at the end of the third quarter of 1985 and contributed revenues of \$33.5 million and operating profit of \$2.5 million to consolidated 1985 results.

Defense segment revenues increased \$11.0 million during 1986 to \$301.3 million. Revenues from the operation of a government-owned reactor and related services approximated \$186 million in both periods. Manufacturing revenues improved \$6 million, a 6% increase, primarily as a result of higher volume due to additional contract awards. In October 1986, the Company's newly established technical services unit, UNC Geotech, began work on a five year management services contract with the U.S. Department of Energy dealing with the disposal of uranium mill tailings in certain western states. Revenues of \$4.3 million were generated by this unit in the fourth quarter of 1986. Segment operating income increased \$2.7 million to \$15.8 million principally due to improved manufacturing results in 1986. The results for 1985 had been adversely affected by a loss on a manufacturing contract.

Interest income decreased \$6.8 million principally due to the liquidation of short-term investments during the latter part of 1985 to provide funds for acquisitions. Interest expense increased \$6.7 million as a result of higher average debt balances incurred in connection with the Company's purchases of its common stock during the year.

Miscellaneous income (expense) decreased \$2.1 million, as the 1985 results included a pretax gain of approximately \$2.3 million on the sale of the former corporate office building.

### 1985 Compared with 1984

Aerospace/Aviation segment revenues improved \$20.3 million. Turbine engine service operations, which were acquired during the fourth quarter of 1985, generated \$16.2 million of revenue. The other \$4.1 million revenue was generated by the fabrication of aerospace components resulting from an increase in orders and deliveries of jet engine components primarily for the F-14/F-16 fighter and B-1b bomber programs. Operating income increased \$2.7 million. The increase represents two months' turbine engine service work and improved earnings from the fabrication of aircraft engine components due to increased shipments and unit cost controls.

Revenues of \$33.5 million and operating profit of \$2.5 million were generated by the Company's telecommunication services operations which were acquired at the end of the third quarter of 1985.

In the Defense segment, revenues from the operation of a government-owned reactor and related services increased 25% as a result of an expanded scope of work in assigned programs. Manufacturing revenues decreased 13% primarily as a result of lower volume due to the timing of contract awards. Operating income for this segment decreased 30% principally due to reduced manufacturing volume and a loss on a manufacturing contract, partially offset by higher fees earned on the reactor operating contract.

Interest income decreased 14% as short-term investments were liquidated to provide funds for acquisitions. Interest expense decreased 35% principally as a result of the repayment of approximately \$71 million of bank indebtedness during the third quarter of 1984.

A pretax gain of approximately \$2.3 million on the sale of the former corporate office building in 1985 is included in other income (expense) miscellaneous.

### 1984 Compared with 1983

In the Aerospace/Aviation segment, revenues increased 43% and operating profit increased 13% as a result of significant deliveries under long-term aerospace component contracts received during 1983.

In the Defense segment, reactor propulsion component manufacturing revenues increased 8% as a result of larger than usual contract awards in late 1983 and early 1984. Revenues from reactor operations and related services increased by 20% as a result of an increase in the scope of work related to fuel fabrication and more frequent refuelings. Operating income increased 10% as a result of improved volume and profit margins in manufacturing and higher incentive fees earned on the operating contract.

Interest income increased \$8.9 million due to investment of funds received from litigation settlements and the sale of 8 million shares of stock, while interest expense decreased \$4.8 million, principally due to the repayment of approximately \$71 million of bank indebtedness during the third quarter of 1984.

**Consolidated Balance Sheets**

(Dollars in thousands)

	December 31,	
	1986	1985
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 11,496	\$ 27,141
Accounts receivable, less allowance for doubtful accounts of \$3,909 and \$2,899, respectively	94,418	112,774
Costs and estimated earnings in excess of billings on uncompleted contracts	29,645	16,884
Inventories	45,990	36,579
Other	8,273	9,801
<i>Total current assets</i>	<b>189,822</b>	<b>203,179</b>
Net assets of discontinued operations—noncurrent	13,017	14,954
Property, plant and equipment, at cost		
Land, buildings and improvements	61,266	47,880
Machinery and equipment	124,302	114,891
	185,568	162,771
Less accumulated depreciation	47,178	33,034
Net property, plant and equipment	138,390	129,737
Cost in excess of net assets of acquired companies, less accumulated amortization of \$1,508 and \$594, respectively	45,123	31,603
Other assets	22,611	10,832
<i>Total assets</i>	<b>\$408,963</b>	<b>\$390,305</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,732	\$ 898
Accounts payable	64,109	54,494
Income taxes	539	2,994
Accruals and other current liabilities	52,384	42,982
<i>Total current liabilities</i>	<b>118,764</b>	<b>101,368</b>
Long-term debt	137,373	78,893
Deferred income taxes	6,075	4,704
Other noncurrent liabilities	48,314	50,122
Minority interest	762	785
<i>Total liabilities</i>	<b>311,288</b>	<b>235,872</b>
<b>Shareholders' equity</b>		
Series preferred stock, par value \$1 per share; Authorized 12,000,000 shares; 6,000,000 designated series A; none issued	—	—
Common stock, par value \$0.20 per share; Authorized 50,000,000 shares; issued 17,473,067 and 22,075,625 shares, respectively	3,494	4,415
Additional paid-in capital	144,997	198,176
Retained earnings (deficit)	(25,816)	(43,705)
	122,675	158,886
Less treasury stock, at cost (2,000,000 and 256,258 shares, respectively)	25,000	4,453
<i>Total shareholders' equity</i>	<b>97,675</b>	<b>154,433</b>
<i>Total liabilities and shareholders' equity</i>	<b>\$408,963</b>	<b>\$390,305</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Earnings**

(Dollars in thousands except per share amounts)

	Year Ended December 31		
	1986	1985	1984
Sales and operating revenues	\$572,065	\$352,927	\$ 278,845
Costs and expenses			
Costs and operating expenses	434,797	301,215	250,418
Payments to connecting telecommunications carriers	53,361	14,187	—
Selling, general and administrative expenses	52,372	27,606	22,618
	540,530	343,008	273,036
Operating income	31,535	9,919	5,809
Other income (expense)			
Interest income	1,624	8,424	9,764
Interest expense	(13,223)	(6,518)	(10,071)
Miscellaneous	(614)	1,497	(2,481)
	(12,213)	3,403	(2,788)
Earnings from continuing operations before income taxes	19,322	13,322	3,021
Income tax provision	9,889	6,889	1,389
Earnings from continuing operations before extraordinary items	9,433	6,433	1,632
Earnings (loss) from discontinued operations, net of income taxes	1,081	2,837	(123,870)
Earnings (loss) before extraordinary items	10,514	9,270	(122,238)
Extraordinary items			
Income tax benefit of net operating loss carryforwards	8,487	8,428	—
Early retirement of debt	(1,112)	—	—
<i>Net earnings (loss)</i>	<i>\$ 17,889</i>	<i>\$ 17,698</i>	<i>\$(122,238)</i>
Primary earnings (loss) per share			
Continuing operations	\$ .54	\$ .30	\$ .12
Discontinued operations	.06	.13	(7.02)
Extraordinary items	.42	.38	—
<i>Net earnings (loss)</i>	<i>\$ 1.02</i>	<i>\$ .81</i>	<i>\$ (6.90)</i>
Fully diluted earnings (loss) per share			
Continuing operations	\$ .51	\$ .30	\$ .12
Discontinued operations	.06	.13	(7.02)
Extraordinary items	.40	.38	—
<i>Net earnings (loss)</i>	<i>\$ .97</i>	<i>\$ .81</i>	<i>\$ (6.90)</i>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Changes in Financial Position**

(Dollars in thousands)

	Year Ended December 31,		
	1986	1985	1984
<i>Funds provided from:</i>			
Earnings from continuing operations before extraordinary items	\$ 9,433	\$ 6,433	\$ 1,632
Charges not requiring funds			
Depreciation and amortization	15,819	5,288	2,567
Deferred income taxes	94	117	1,389
Tax benefit of net operating loss carryforwards	7,428	6,011	—
Funds provided from continuing operations	32,774	17,849	5,588
Earnings (loss) from discontinued operations	1,081	2,837	(123,870)
Charges (credits) not requiring funds			
Depreciation and amortization	—	693	2,898
Adjustments to carrying value of assets	—	15,170	221,618
Provision for operating losses and related costs	—	8,916	51,999
Reductions in deferred revenues	—	—	(71,438)
Deferred income tax benefit	—	—	(1,389)
Tax benefit of net operating loss carryforwards	1,059	2,417	—
Funds provided from discontinued operations	2,140	30,033	79,818
Extraordinary item—early retirement of debt	(1,112)	—	—
Issuance of common stock	159	92	100,575
Disposition of properties and affiliates	—	7,681	2,437
Addition to debt	135,155	77,957	6,778
Decrease (increase) in accounts receivable	17,429	6	(3,554)
Increase (decrease) in accounts payable, accruals and other liabilities	12,775	(11,595)	1,174
<i>Total funds provided</i>	<b>199,320</b>	<b>122,023</b>	<b>192,816</b>
<i>Funds used for:</i>			
Purchase of common stock	74,960	—	—
Additions to property, plant and equipment	27,253	13,409	13,947
Reductions in debt	75,841	44,712	66,275
Acquisition of subsidiaries	7,479	164,891	—
Increase (decrease) in inventories	11,378	1,595	(3,329)
Increase (decrease) in other assets	18,054	(6,683)	(1,225)
<i>Total funds used</i>	<b>214,965</b>	<b>217,924</b>	<b>75,668</b>
<i>Increase (decrease) in cash and short-term investments</i>	<b>\$ (15,645)</b>	<b>\$ (95,901)</b>	<b>\$ 117,148</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Changes in Shareholders' Equity**

(Dollars in thousands)

	Common Stock		Additional	Retained	Treasury	Total
	Shares	Par Value	Paid-In Capital	Earnings	Shares	
Balance at December 31, 1983	13,916,151	\$2,783	\$ 98,986	\$ 60,835	\$ (3,897)	\$ 158,707
Net loss	—	—	—	(122,238)	—	(122,238)
Award of restricted stock under the employees' stock plan, net of forfeitures	52,114	11	270	—	—	281
Exercise of stock options	105,726	21	554	—	—	575
Sale of common stock	8,000,000	1,600	98,400	—	—	100,000
Balance at December 31, 1984	22,073,991	4,415	198,210	(61,403)	(3,897)	\$ 137,325
Net earnings	—	—	—	17,698	—	17,698
Forfeitures of restricted stock under the employees' stock plan, net of awards	(19,386)	(4)	(122)	—	—	(126)
Exercise of stock options	21,020	4	88	—	—	92
Receipt of 56,258 contingent shares issued in prior acquisition	—	—	—	—	(556)	(556)
Balance at December 31, 1985	22,075,625	4,415	198,176	(43,705)	(4,453)	154,433
Net earnings	—	—	—	17,889	—	17,889
Forfeitures of restricted stock under the employees' stock plan, net of awards	(61)	—	(16)	—	—	(16)
Exercise of stock options	26,461	5	154	—	—	159
Purchase and retirement of common shares	(4,372,700)	(875)	(49,085)	—	—	(49,960)
Retirement of treasury shares	(256,258)	(51)	(4,402)	—	4,453	—
Purchase of 2,000,000 shares for treasury	—	—	—	—	(25,000)	(25,000)
Issuance of warrants	—	—	170	—	—	170
Balance at December 31, 1986	17,473,067	\$3,494	\$144,997	\$ (25,816)	\$(25,000)	\$ 97,675

See accompanying notes to consolidated financial statements.



## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

(a) *Basis of Presentation.* The accompanying financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

(b) *Short-Term Investments.* Short-term investments, consisting principally of Eurodollar deposits and bank certificates of deposit, are carried at cost, which approximates market.

(c) *Long-Term Contracts.* Revenues under fixed-price and award fee incentive contracts for the fabrication of components are recognized under the percentage-of-completion method and are measured principally on either a cost-to-cost or units-of-delivery basis. Cost estimates are reviewed periodically as the work progresses, and adjustments to revenues are reflected in the period in which revisions to such estimates are deemed appropriate. Performance incentives or penalties incorporated in certain government contracts are recognized when there is sufficient information to assess expected contract performance. Provisions for estimated losses on contracts are recorded when identified.

(d) *Inventories.* Valuation of inventories is at the lower of cost or market. Cost is determined using principally the first-in, first-out and average cost methods.

(e) *Depreciation and Amortization.* The Company's facilities and equipment are depreciated over their estimated useful lives by the straight-line method, except for a portion of the Company's Defense group facilities, which are depreciated by the sum-of-the-years digits method.

(f) *Cost in Excess of Net Assets of Acquired Companies.* The excess of acquisition cost over the fair value of tangible and identifiable intangible net assets of acquired companies at date of acquisition is amortized on a straight-line basis over periods ranging from 25 to 40 years (see Note 2).

(g) *Pension Plans.* Substantially all of the employees of the Company and its subsidiaries are covered by various pension and retirement benefit plans. Pension cost for defined benefit plans is comprised of the actuarially computed normal cost and amortization of prior service cost over 30 years. The Company's policy is to fund at least the minimum amount required by the Employee Retirement Income Security Act. The cost of defined contribution plans is a fixed percentage of the participants' eligible compensation.

(h) *Income Taxes.* Provisions for income taxes are based on financial statement income adjusted for permanent differences. Excess investment tax credits carried forward from 1985 will be recognized by the flow-through method.

(i) *Earnings Per Share.* The calculation of primary earnings per share of common stock is based on the weighted average number of shares outstanding, assuming the exercise of dilutive stock options and warrants. The fully diluted earnings per share calculation assumes full conversion of convertible securities and exercise of stock options and warrants as of the beginning of the year (or date of issue, if later), if dilutive, and shares contingently issuable.

### 2. Acquisitions

During 1986 and 1985, the Company acquired the entities described below, which were accounted for by the purchase method of accounting. The results of operations of the acquired companies are included in the Company's statement of earnings from the dates of acquisition.

On October 31, 1986, the Company, through a wholly-owned acquisition subsidiary, acquired substantially all of the operating assets of the Division of Military Aviation ("DMA") of Burnside-Ott Aviation Training Center, Inc. for \$7 million in cash. DMA provides simulator pilot training for the U.S. Armed Forces, and line maintenance and operational support for military training aircraft. The excess of the purchase price over the fair value of the operating assets acquired is being amortized over a period of twenty-five years using the straight-line method. Under the terms of employment and bonus agreements entered into with certain of the former owners of DMA, the acquisition subsidiary may be required to make incentive compensation payments based upon specified earnings levels as defined in the agreements, not to exceed \$10 million during the six-year period ending December 31, 1992. Any payments made under the terms of these agreements will be recorded as expense when incurred.

On September 30, 1985, the Company acquired TRT Communications, Inc. ("TRT") for \$57.3 million in cash. TRT is an international communications carrier providing a wide range of data and voice business communications services throughout the world. The acquisition was accomplished through an acquisition subsidiary, ICC Communications Corporation ("ICC"), which is owned 84.4% by the Company and 15.6% by certain management personnel of TRT.

Effective October 31, 1985, the Company acquired Airwork Corporation and Pacific Airmotive Corporation (collectively referred to as "Airwork") for approximately \$108 million in cash. The purchase price was subject to post-closing adjustments which were finalized during 1986 and resulted in a reduction in the purchase price to \$103 million. Airwork provides, to both domestic and foreign customers, turbine engine service for business and military aircraft, commercial and commuter airlines and helicopters, as well as repair and maintenance for auxiliary power units and accessory systems used in aircraft and for turbine engines used by the electric utility, gas and oil, and marine industries.

During 1986, the Company completed its allocation of the purchase prices for Airwork and TRT, based on the results of independent appraisals of the acquired assets. The excess of the adjusted purchase price over the fair value of the tangible and identifiable intangible net assets acquired of \$38.8 million is being amortized over a period of forty years using the straight-line method. The principal categories of non-cash assets acquired and liabilities assumed in the acquisitions of TRT and Airwork are as follows: inventories \$30.4 million; property, plant and equipment \$98.1 million; cost in excess of net assets acquired \$38.8 million; other assets \$55.5 million; and liabilities \$57.9 million.

The unaudited pro forma consolidated results of operations of the Company as though DMA, TRT and Airwork had been acquired on January 1, 1985 are as follows:

	Year Ended December 31,	
(In thousands except per share amounts)	1986	1985
Sales and operating revenues	\$593,300	\$547,000
Earnings from continuing operations	9,901	7,685
Net earnings	18,965	20,993
Primary earnings per share:		
Continuing operations	\$ .56	\$ .35
Net earnings	1.08	.96
Fully diluted earnings per share:		
Continuing operations	\$ .53	\$ .35
Net earnings	1.02	.96

The unaudited pro forma information is not necessarily indicative either of results of operations that would have occurred had the purchases been made at January 1, 1985, or of future results of operations of the combined companies.

### 3. Discontinued Operations and Related Litigation Settlements

The Company discontinued its Machine Tool business in 1985, and its Offshore Products and Services and Minerals businesses in 1984. The following table summarizes the revenues, earnings (loss) from operations and the estimated loss on disposal of these discontinued businesses. Also, the Company has settled certain litigation which related to its mineral operations. These settlements are included in determining the earnings (loss) from discontinued operations.

	Year Ended December 31,		
(Dollars in thousands)	1986	1985	1984
Revenues			
Machine Tools	\$ —	\$ 33,409	\$ 22,143
Offshore Products and Services	—	—	13,428
Minerals	—	—	10,321
	\$ —	\$ 33,409	\$ 45,892
Earnings (loss) from operations			
Machine Tools	—	(4,814)	(6,295)
Offshore Products and Services	—	—	(9,297)
Minerals	—	—	(100,067)
	—	(4,814)	(115,659)
Estimated loss on disposal			
Machine Tools	(3,000)	(12,686)	—
Offshore Products and Services	—	—	(54,500)
Minerals	—	(11,400)	(126,769)
	(3,000)	(24,086)	(181,269)
Loss before litigation settlements and income taxes	(3,000)	(28,900)	(296,928)
Net gain on litigation settlements related to mineral operations	5,300	36,400	171,669
Earnings (loss) before income taxes	2,300	7,500	(125,259)
Income tax benefit (expense)	(1,219)	(4,663)	1,389
Earnings (loss) from discontinued operations	\$ 1,081	\$ 2,837	\$(123,870)

**Notes to Consolidated Financial Statements (cont.)**

In August 1986, the Company sold its Machine Tool business for \$900,000 in cash and \$6.6 million in notes and recorded an additional \$3 million loss on disposal. The Company continues as guarantor of \$6.7 million in bank notes of this business. In August 1985, the Company sold its Offshore Products and Services business to management of the subsidiary for \$6 million in notes. This business segment was discontinued effective June 30, 1984 and a provision for loss on disposal was made at that time. The Company continues as guarantor of a \$4.2 million Industrial Revenue Bond and approximately \$5.6 million of performance bonds of this business.

The Company's Minerals business was discontinued as of December 31, 1984. During 1986 and 1985, the Company pursued its plan for an orderly disposition of its mineral properties and related assets. The Company sold certain buildings, equipment and a mineral property in 1986 and 1985.

The net assets of discontinued operations have been segregated in the 1986 and 1985 consolidated balance sheets and are stated at estimated net realizable value. These assets consist of:

(Dollars in thousands)	December 31,	
	1986	1985
Current assets	\$ 1,913	\$26,896
Other assets	2,534	157
Property, plant and equipment, net	11,851	12,244
	<b>16,298</b>	<b>39,297</b>
Less:		
Current liabilities	62	16,404
Long-term debt, net of current portion	19	255
Other long-term liabilities	—	1,074
	<b>81</b>	<b>17,733</b>
Net assets of discontinued operations	<b>16,217</b>	<b>21,564</b>
Less estimated realizable value of assets classified as other current assets	<b>3,200</b>	<b>6,610</b>
Net assets of discontinued operations—noncurrent	<b>\$13,017</b>	<b>\$14,954</b>

During 1986, the Company settled two separate suits brought by the Company for damages, costs and expenses incurred in connection with certain operations of its discontinued minerals business. The aggregate amount of these settlements was approximately \$6.6 million. In December 1985, the Company received approximately \$37

million from Allendale Mutual Insurance Company in settlement of a suit brought by the Company for reimbursement of certain property damage and business interruption losses it sustained as a result of the collapse of a tailings structure at its Church Rock mill in 1979. These settlements, net of related cost, are reflected above as a net gain on litigation settlements related to the discontinued minerals operations.

In May 1984, the Company entered into an agreement with Chevron Corporation ("Chevron") and Gulf Oil Corporation ("Gulf") providing for the settlement of the Company's lawsuit against Gulf, General Atomic Company and Scallop Nuclear, Inc. pending since May 1982 in a New Mexico state court. In accordance with the agreement, Gulf paid the Company \$130 million in cash and agreed to assume certain obligations of the Company to return to a lender borrowed uranium concentrates which had been carried on the Company's books as deferred revenues in the amount of \$71.4 million.

The agreement with Chevron also provided for the investment of \$100 million in 8 million newly issued shares of common stock of the Company. This stock purchase agreement was amended in April 1986, providing for the sale by Chevron of its entire holdings of 8 million shares of common stock to the Company or others in a series of transactions. Under the agreement, the Company purchased 2 million shares of common stock for \$25 million (\$12.50 per share) in June 1986, and agreed to purchase or arrange for the placement with third parties of 2 million shares by each July 31, 1987, 1988 and 1989 at the then current market price of the common stock (plus a supplemental amount payable by the Company of up to \$2.50 per share to the extent such market price is less than \$12.50 per share). The Company intends to arrange for the placement of these shares with third parties. To the extent any of the purchases or placements contemplated for 1987, 1988 and 1989 are not consummated, the Company will be obligated to issue to Chevron additional shares of common stock (up to 500,000 shares in 1987 and up to an aggregate of 1 million shares in 1988 and 1989). In 1986, 1 million shares were escrowed for such purpose. The shares owned by Chevron are subject to certain restrictive provisions relating to voting rights and the acquisition of additional shares. The Chevron shares are to be represented at all shareholders meetings for quorum purposes and are generally to be voted in proportion to the votes cast by other shareholders, except that they are to be voted for Management's nominees for Director. Chevron's previous right to vote separately on matters relating to the authorization of new equity securities, acquisition or liquidation of the Company, certain acquisitions by the Company involving issuance of voting securities and charter or by-law changes requiring shareholder approval terminated upon the purchase of common stock made in June 1986.

#### 4. Contracts in Process

Costs and estimated earnings on uncompleted long-term construction contracts consist of the following:

(Dollars in thousands)	December 31,	
	1986	1985
Costs incurred and estimated earnings on uncompleted contracts	\$576,747	\$570,565
Less billings to date	547,102	553,754
	<b>\$ 29,645</b>	<b>\$ 16,811</b>
The net amounts above are included in the consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 29,645	\$ 16,884
Other current liabilities	—	(73)
	<b>\$ 29,645</b>	<b>\$ 16,811</b>

Substantially all of the amounts billed at December 31, 1986 and 1985 relate to contracts with the U.S. government, which has a security title in the components being fabricated.

Unbilled amounts are recorded on the percentage-of-completion method and are recoverable from the customer upon shipment of the product, presentation of bills or completion of the contract. Substantially all of these unbilled amounts are collectible during 1987.

At December 31, 1986, retainage receivable, included in accounts receivable, amounted to \$11,747,000 which is anticipated to be collected as follows: 1987, \$5,773,000; 1988, \$3,020,000; and the balance thereafter.

#### 5. Inventories

Inventories as of December 31, 1986 and 1985, consist of the following:

(Dollars in thousands)	December 31,	
	1986	1985
Component parts and materials	\$28,362	\$23,586
Work in process	15,275	10,706
Supplies	2,353	2,287
	<b>\$45,990</b>	<b>\$36,579</b>

#### 6. Debt

(Dollars in thousands)	December 31,	
	1986	1985
Bank Term Loan	\$ —	\$40,000
11½% Senior Subordinated Debentures due 1996	69,000	—
7½% Convertible Subordinated Debentures due 2006	69,000	—
12% Subordinated Debentures due December 1998	—	35,000
12% Convertible Subordinated Guaranteed Debentures due December 1987	1,000	1,000
Other	3,011	3,903
	<b>142,011</b>	<b>79,903</b>
Less: Current portion	1,732	898
Unamortized discount	2,906	112
	<b>\$137,373</b>	<b>\$78,893</b>

During 1986, the Company repaid its Term Loan and amended the terms of its Revolving Credit Agreement providing for a \$35 million revolving credit facility. Borrowings under the amended agreement are due thirteen months after demand by the bank and bear interest, at the option of the Company, at the bank's prime lending rate or at a rate tied to the bank's certificate of deposit rate. At December 31, 1986, there were no borrowings outstanding under the revolving credit agreement. The Company has agreed to pay a commitment fee of ½ of 1% on the first \$10 million of the unsecured commitment and ¾ of 1% per annum on the balance of the commitment. Under the terms of the agreement, the Company is required, among other things, to maintain a minimum net worth, debt to equity ratio, working capital ratio and cash flow ratio.

In June 1986, the Company sold \$69 million principal amount of 11½% Senior Subordinated Debentures due 1996. The debentures are redeemable at any time at the option of the Company after May 1, 1991 at 100% of principal amount. Annual sinking fund payments of \$12 million commence in May 1993. The debt indenture contains certain covenants which, among other things, limit additional borrowings and restrict the payment of cash dividends and the purchase by the Company of any class of its stock (except for 2 million shares of common stock purchased from Chevron in June 1986) unless the amount of such purchases does not exceed the sum of net income plus proceeds from the sale of any shares of any class of stock subsequent to March 31, 1986.

**Notes to Consolidated Financial Statements (cont.)**

In June 1986, the Company sold \$69 million principal amount of 7½% Convertible Subordinated Debentures due 2006. The debentures are convertible into shares of the Company's common stock at a conversion price of \$15.40 per share and are redeemable (subject to certain restrictions) at the option of the Company at declining premiums through 1996 and at the principal amount thereafter. Annual sinking fund payments of \$4.2 million commence in 1996.

Included in other assets at December 31, 1986 is approximately \$4.6 million of unamortized debenture issue expenses incurred in connection with the 1986 issuance of debentures.

In June 1986, the Company redeemed its outstanding 12% Subordinated Debentures and recorded an extraordinary pretax charge of \$2,060,000 (\$1,112,000 net of income taxes, \$.06 per share) for the call premium and related expense.

The 12% Convertible Subordinated Guaranteed Debentures are convertible at the option of the debenture holders into 83,333 shares of the Company's common stock at a conversion price of \$12 per share.

Under the most restrictive covenants of the various debt arrangements, the Company had \$13.1 million available at December 31, 1986 for cash dividends or stock purchases.

Annual maturities of long-term debt during the next five years are as follows: 1987, \$1,732,000; 1988, \$662,000; 1989, \$610,000; 1990, \$474,000; 1991, \$388,000.

**7. Other Liabilities**

Accruals and other current liabilities consist of the following:

	December 31,	
(Dollars in thousands)	1986	1985
Pension plans	\$ 4,709	\$ 3,363
Payroll and related expenses	16,214	15,311
Accruals related to discontinued operations	4,629	7,006
Other	26,832	17,302
	<b>\$52,384</b>	<b>\$42,982</b>

At December 31, 1986, other noncurrent liabilities include approximately \$40.9 million of accruals related to discontinued operations.

**8. Preferred Stock Purchase Rights**

On October 25, 1985, the Board of Directors of the Company declared a dividend of one Preferred Stock Purchase Right on each share of common stock outstanding on November 14, 1985. The dividend is designed to assure shareholders of receiving their fair share of the Company's net worth in the event of a takeover attempt which is not approved by the Board of Directors. Each Right entitles the holder to acquire one-fifth of a share of newly created Series A Preferred Stock at an exercise price of \$3.00 for each share of Preferred Stock. The Rights trade with the common stock and are not exercisable or transferable apart from the common stock until 10 days after someone acquires 25% of the common stock, or makes an offer for 25% of the common stock not conditioned on redemption of the Rights, or commences a proxy solicitation which would have the effect of eliminating or diminishing the protection afforded by the Rights. No dividend of any Rights shall be considered to have been made on, and no Rights shall attach to, any common stock owned beneficially by the person triggering the exercise of the Rights. The Rights, which do not have any voting rights, expire on November 14, 1995, and are redeemable at \$.01 per Right prior to the occurrence of one of the foregoing events.

Each share of Series A Preferred Stock issuable under the Rights will have a minimum preferential quarterly dividend rate of \$0.75 per share. In the event of liquidation, the holders of the preferred stock will receive a preferred liquidation payment of \$50 per share. Each share of preferred stock will have one vote, voting together with the common stock. The preferred stock will be redeemed at \$50 per share if two consecutive quarterly dividends are not paid on the preferred stock, if in two quarters the after-tax earnings of the Company do not equal one and one-half times the aggregate dividends payable on the preferred stock, or if a merger, consolidation or distribution of all or substantially all of the Company's assets becomes effective or any other transaction becomes effective which would have the effect of denying the preferred stock its right to dividends, liquidation preferences, redemption rights or voting rights. No fractional shares of preferred stock will be issued. Six million shares of preferred stock have been reserved for issuance upon exercise of the Rights.

#### **9. Purchase and Retirement of Common Shares**

In March 1986, the Company purchased from Maxxam Properties, Inc. ("Maxxam") 4,372,700 shares of common stock. Maxxam and certain related parties have agreed, until March 28, 1996, not to purchase any voting securities of the Company (other than pursuant to the exercise of the Warrants described below), solicit proxies, engage in election contests involving the Company, propose any business combination or restructuring, or otherwise seek to exercise control or influence over the Company. In addition to net cash paid of \$49,960,000 as part of the consideration for such repurchase, the Company issued Warrants to purchase 3,500,000 shares of common stock at an exercise price of \$13.50 per share (subject to anti-dilution provisions). The Warrants do not become exercisable or transferable until January 1, 1988, subject to limited exceptions, and expire on March 28, 1991. The Warrants and, until March 28, 1996, the common stock issuable upon their exercise are also subject to certain restrictions on transfer, including rights of first refusal in favor of the Company. The purchase price paid by the Company did not exceed the fair value of the shares acquired.

#### **10. Litigation and Contingencies**

The tailings area of the Church Rock mill has been placed on the National Priorities List by the U.S. Environmental Protection Agency ("EPA") pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Company appealed this designation to the Court of Appeals for the District of Columbia. The Court ruled against the Company on all issues except for the question whether the EPA made errors in applying its hazard ranking system to the Church Rock site. This question will be covered in a final opinion that has not yet been issued by the Court. CERCLA may require expenditures or contributions by the Company in an indeterminable amount for any studies or cleanup required under this statute.

On May 23, 1986, the Nuclear Regulatory Commission issued an order reasserting the Commission's regulatory authority over uranium milling in New Mexico, in place of the authority formerly exercised by the state itself. The New Mexico Mining Association's Uranium Environmental Subcommittee, of which the Company is a member, has appealed the Commission's order to the Tenth Circuit Court of Appeals, on the grounds that the Commission unlawfully refused to provide an opportunity for comment and hearing before issuing its order. In the interim, the Company is preparing a reclamation plan to comply with the standards of the Commission, if the order is upheld. The Company believes that adequate provision for compliance has been accrued in the accompanying financial statements.

The Company is also a party to various other claims, legal actions and complaints arising in the ordinary course of business. Management believes the disposition of these matters will not have a material adverse effect on the financial position of the Company.

**Notes to Consolidated Financial Statements (cont.)****11. Income Taxes**

The income tax provision from continuing operations consists of the following:

(Dollars in thousands)	Year Ended December 31,		
	1986	1985	1984
Federal: Current	\$ —	\$ —	\$ —
Deferred	—	—	1,389
Tax effect of net operating loss carryforwards	8,376	6,011	—
	8,376	6,011	1,389
State: Current	1,073	661	—
Deferred	94	117	—
	1,167	778	—
Foreign: Current	346	100	—
Total tax provision	\$9,889	\$6,889	\$1,389

Deferred tax provision is comprised of the following:

(Dollars in thousands)	Year Ended December 31,		
	1986	1985	1984
Tax effect of current operating losses	\$—	\$ —	\$1,389
Other	94	117	—
Deferred tax provision	\$94	\$117	\$1,389

Income tax rates differ from the statutory federal income tax rate as follows:

	Year Ended December 31,		
	1986	1985	1984
Statutory rate	46%	46%	46%
Amortization of cost in excess of net assets of acquired companies	2	1	—
Book value over (under) tax basis of acquired assets	(3)	1	—
State taxes	3	3	—
Foreign taxes	2	1	—
Other	1	—	—
	51%	52%	46%

Extraordinary items in 1986 and 1985 include the utilization of net operating loss carryforwards from prior years. At December 31, 1986, the Company had unused operating loss carryforwards of approximately \$75.7 million for financial reporting purposes. If such losses result in the reduction of income tax liability at a future date, these losses will be available to offset future income tax expense on reported earnings. For federal income tax purposes, the Company has net operating loss carryforwards of approximately \$34.9 million of which \$24.7 million expire in 1998 and \$10.2 million expire in 2001. Unused investment tax credit carryforwards of approximately \$6.7 million expire in varying amounts over the period of 1988 to 1999. The December 31, 1985 current liability for state income taxes included approximately \$2.2 million applicable to discontinued operations.

## 12. Incentive Compensation Plans

The Company has three stock plans, approved by the shareholders, which provide for the granting of options and restricted stock to officers, key employees and outside directors. Options are granted at no less than fair market value on the date of grant, become exercisable in increments, in some instances partially conditioned on the attainment of specific performance objectives, and expire between six and ten years from date of grant. Certain officers and key employees have the right, in lieu of purchasing shares subject to their options, to surrender portions of their options and receive common shares whose value is equivalent to the excess of the fair market value of the stock over the option price. Restricted stock issued to key employees becomes vested over a maximum ten-year period, in some instances partially conditioned on the attainment of specific performance objectives. A summary of certain plan information is as follows:

	Year Ended December 31,		
Number of shares:	1986	1985	1984
Outstanding at beginning of year	1,039,075	216,876	317,779
Granted	118,000	867,784	59,900
Exercised	(26,461)	(21,020)	(105,726)
Expired or cancelled	(33,159)	(24,565)	(55,077)
Outstanding at end of year	1,097,455	1,039,075	216,876
Exercisable at end of year	215,554	135,762	91,528
Available for grant at end of year	201,001	324,796	73,290
Price range of options			
Outstanding	\$ 3.25–18.06	\$ 3.25–18.06	\$ 3.25–18.06
Exercised	\$ 3.25–9.875	\$ 3.25–7.69	\$ 4.13–7.69

## 13. Pension Plans

During 1985, two defined benefit pension plans were adopted to provide continuing pension benefits to bargaining unit employees of Airwork and employees of TRT. Benefits earned for service under prior plans were funded by annuity contracts purchased by the former owners.

The total pension cost for all retirement benefit plans was \$6,810,000, \$5,422,000 and \$4,873,000, in 1986, 1985, and 1984 respectively.

The actuarial present value of vested and non-vested accumulated plan benefits, plan net assets and the assumed rates of return for the defined benefit pension plans are presented in the following table. The amounts presented are primarily as of October 1985 and 1984, the most recent actuarial valuation dates.

(Dollars in thousands)	1985	1984
Actuarial present value of accumulated benefits		
Vested	\$24,787	\$22,389
Non-vested	5,013	3,507
Total	\$29,800	\$25,896
Net assets available for benefits	\$44,611	\$35,548
Assumed rates of return	8%	8%

The indicated pension plan assets and liabilities primarily represent funds provided by the federal government and administered by a subsidiary of the Company pursuant to a government-owned contractor operated facility management contract. Upon termination of the contract the disposition of substantially all plan assets and liabilities is subject to federal government approvals and policies (see also Note 16).

The Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits after reaching normal retirement age while employed by the Company. The cost of providing these benefits is recognized by expensing the annual insurance premium, which is subsequently adjusted based upon actual experience. These costs approximated \$1,800,000, \$1,600,000 and \$1,700,000 in 1986, 1985 and 1984.



**Notes to Consolidated Financial Statements (cont.)****14. Leases**

Minimum rental commitments under noncancellable operating leases at December 31, 1986, were as follows: 1987, \$12,545,000; 1988, \$10,875,000; 1989, \$7,541,000; 1990, \$6,509,000; 1991, \$5,598,000; and thereafter, \$19,271,000. Rental expense for the years 1986, 1985, and 1984 were \$12,874,000, \$7,165,000, and \$1,769,000, respectively.

**15. Supplementary Income Statement Information**

Supplementary income statement information is as follows:

(Dollars in thousands)	Year Ended December 31,		
	1986	1985	1984
Maintenance and repairs	\$4,991	\$3,850	\$3,338
Franchise, property and other taxes	\$5,291	\$3,825	\$4,500

**16. Business Segment Information**

The Company, through its subsidiaries and divisions, conducts a diversified business through three principal segments: (i) Aerospace/Aviation, which includes providing turbine engine service for business and military aircraft, commercial and commuter airlines and helicopters, precision fabrication of aerospace components, simulator pilot training for the U.S. Armed Forces, and line maintenance and operational support for military training aircraft; (ii) Telecommunications, which includes providing the following international and domestic telecommunications services: telex and data switching; high speed data transmission; leased channel which includes data, voice, facsimile and message telegram; switched voice, direct satellite access and marine radio telex and telegraph; and (iii) Defense, which includes the production and fabrication of major components for reactor propulsion units for naval

submarines and surface vessels, the operation of a government-owned reactor, and engineering and environmental reclamation and remedial action services. In December 1986, the U.S. Department of Energy, as a result of a procurement policy change to consolidate operations, announced that it has awarded to another company a contract to operate the complex which includes the reactor operated by UNC's subsidiary. As a result, UNC will phase out of this responsibility during 1987. The reactor operations contract contributed approximately \$186 million of revenues and \$3.6 million of pretax operating profit in 1986.

Revenues by business segment include trade sales to unaffiliated customers, as reported in the Company's consolidated statements of earnings. Intersegment sales are not significant. In computing operating profit by segment, general corporate income and expense and interest expense, net of interest income, have been excluded.

Identifiable assets by industry segment are those assets that are used in the Company's operations in each industry and do not include general corporate assets. General corporate assets consist primarily of cash, short-term investments and office furniture and fixtures.

The following tables set forth certain information with respect to each segment of the Company's continuing operations during the past three years.

(Dollars in thousands)	Year Ended December 31,		
	1986	1985	1984
Revenues			
Aerospace/Aviation	\$138,786	\$ 28,849	\$ 8,591
Telecommunications	131,974	33,537	—
Defense	301,305	290,318	268,887
Other	—	223	1,367
	\$572,065	\$352,927	\$278,845
Operating profit (loss)			
Aerospace/Aviation	\$ 14,353	\$ 3,900	\$ 1,199
Telecommunications	10,111	2,507	—
Defense	15,833	13,149	18,882
Other	—	(103)	(3,508)
	40,297	19,453	16,573
Corporate items	(9,376)	(7,201)	(12,652)
Interest expense, net of interest income	(11,599)	1,070	(900)
Earnings from continuing operations before income taxes	\$ 19,322	\$ 13,322	\$ 3,021
Identifiable assets			
Aerospace/Aviation	\$175,497	\$142,386	\$ 6,348
Telecommunications	101,048	91,213	—
Defense	90,576	100,564	91,686
Other	413	5,254	17,755
Corporate	25,212	29,324	125,321
Discontinued operations	16,217	21,564	61,115
	\$408,963	\$390,305	\$302,225
Depreciation and amortization expense			
Aerospace/Aviation	\$ 5,039	\$ 1,242	\$ 424
Telecommunications	8,355	2,021	—
Defense	2,267	1,791	1,513
Other	—	5	182
Corporate	158	229	448
	\$ 15,819	\$ 5,288	\$ 2,567
Capital additions			
Aerospace/Aviation	\$ 9,465	\$ 7,274	\$ 2,675
Telecommunications	11,846	2,487	—
Defense	5,828	3,436	606
Other	—	—	7,569
Corporate	114	181	297
Discontinued operations	—	31	2,800
	\$ 27,253	\$ 13,409	\$ 13,947
Sales to federal government			
Aerospace/Aviation	\$ 11,444	\$ 3,182	\$ 3,310
Telecommunications	8,515	1,684	—
Defense	301,249	290,264	268,818
	\$321,208	\$295,130	\$272,128
Sales to foreign countries			
Latin America	\$ 22,777	\$ 3,105	\$ —
Western Europe	18,447	3,798	—
Far East	11,920	2,863	—
Middle East	6,610	1,086	—
Other	3,106	1,035	—
	\$ 62,860	\$ 11,887	\$ —

**Notes to Consolidated Financial Statements (cont.)****17. Quarterly Summary (Unaudited)**

(Dollars in thousands except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Year Ended December 31, 1986					
Revenues	\$143,512	\$136,782	\$137,895	\$153,876	\$572,065
Operating income	7,107	7,825	7,899	8,704	31,535
Earnings from continuing operations	2,349	2,268	1,978	2,838	9,433
Discontinued operations	—	1,081	—	—	1,081
Earnings before extraordinary items	2,349	3,349	1,978	2,838	10,514
Net earnings	4,529	4,454	3,809	5,097	17,889
Primary earnings per share					
Continuing operations	\$ .11	\$ .13	\$ .13	\$ .18	\$ .54
Discontinued operations	—	.06	—	—	.06
Net earnings	.21	.25	.25	.33	1.02
Fully diluted earnings per share					
Continuing operations	\$ .11	\$ .12	\$ .12	\$ .17	\$ .51
Discontinued operations	—	.06	—	—	.06
Net earnings	.21	.24	.23	.30	.97
Year Ended December 31, 1985					
Revenues	\$ 73,301	\$ 74,604	\$ 75,502	\$129,520	\$352,927
Operating income	1,926	1,965	2,285	3,743	9,919
Earnings from continuing operations	2,865	1,857	1,508	203	6,433
Discontinued operations	43	110	(356)	3,040	2,837
Earnings before extraordinary item	2,908	1,967	1,152	3,243	9,270
Net earnings	5,593	3,682	2,166	6,257	17,698
Primary earnings (loss) per share					
Continuing operations	\$ .13	\$ .09	\$ .07	\$ .01	\$ .30
Discontinued operations	—	—	(.01)	.14	.13
Net earnings	.26	.16	.10	.29	.81
Fully diluted earnings (loss) per share					
Continuing operations	\$ .13	\$ .09	\$ .07	\$ .01	\$ .30
Discontinued operations	—	—	(.01)	.14	.13
Net earnings	.26	.16	.10	.29	.81

Certain previously published quarterly financial data have been reclassified to conform to year end 1986 presentation.

Included in earnings from continuing operations in the fourth quarter of 1986 were earnings from an acquired company (see Note 2).

Included in discontinued operations in the second quarter of 1986 was a gain on a litigation settlement. Included in discontinued operations in the third quarter of 1986 were a gain on a litigation settlement and a provision for loss on the sale of the machine tool business. (See Note 3.)

Net earnings for each quarter in 1986 include an extraordinary item representing the tax benefit of net operating loss carryforwards from prior years. The second quarter also includes an extraordinary after tax charge of \$1.1 million for debt retirement.

Included in earnings from continuing operations in the first quarter of 1985 was an after tax gain on the sale of the former corporate office building of \$1.1 million.

Included in earnings from continuing operations in the fourth quarter of 1985 were earnings from acquired companies (see Note 2) and a \$2.0 million loss on a manufacturing contract. Also included in discontinued operations in the fourth quarter of 1985 were a provision for loss on the disposal of the machine tool business, a provision for additional costs expected to be incurred on disposing of mineral assets and a gain from a litigation settlement (see Note 3).

Net earnings for each quarter in 1985 include an extraordinary item representing the tax benefit of net operating loss carryforwards from prior years.

# **Report of Independent Certified Public Accountants**

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The Board of Directors and Shareholders  
UNC Incorporated

We have examined the consolidated balance sheets of UNC Incorporated and subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of earnings, changes in shareholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of UNC Incorporated and subsidiaries at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Washington, D.C.  
February 6, 1987

## Directors

Walter S. Holmes, Jr.

(1979)\* *Chairman of the Board of the Corporation, previously Chairman of the Board and Chief Executive Officer of C.I.T. Financial Corporation.* (1,4)

Frederick Aley Allan

(1976) *President of Allan Capital Corporation, a private venture capital and investment firm specializing in the energy industries.* (1,5)

D. Allan Bromley

(1967) *Henry Ford II Professor and Director of the A.W. Wright Nuclear Structure Laboratory at Yale University.* (2,4)

John K. Castle

(1986) *President and Chief Executive Officer of Branford Castle, Inc.* (2,3)

Dan A. Colussy

(1981) *President and Chief Executive Officer of the Corporation.* (1)

H. Justin Davidson

(1978) *Dean, College of Business, The Ohio State University.* (3,4,5)

William C. Hittinger

(1986) *Retired Executive Vice President of RCA Corporation.* (2,5)

Jack H. Vollbrecht

(1982) *Consultant, previously President of Aerojet-General Corporation.* (1,3)

### Director Changes in 1986

Several changes in the membership of the Board of Directors occurred during 1986.

William R. Bush, formerly the Executive Vice President of the Corporation and a Director since 1979, retired from the Board in May 1986.

Charles B. Renfrew and James N. Sullivan, Directors since 1984 and 1985, respectively, and representatives of Chevron Corporation, resigned from the Board in June 1986 coincident with the purchase of 2 million shares of common stock owned by Chevron.

We gratefully appreciate the contributions each of these Directors made to UNC during their years of service.

Two new members, John K. Castle and William C. Hittinger, joined the Board in May 1986. Their background and experience will be invaluable as UNC addresses new challenges in the years ahead.

\*Year originally elected to the Board.

(1) Executive Committee

(2) Audit Committee

(3) Management Development and Compensation Committee

(4) Nominating Committee

(5) Public Responsibility Committee



Seated: (left to right) Walter S. Holmes, Jr., Dan A. Colussy, D. Allan Bromley. Standing: (left to right) Jack H. Vollbrecht, John K. Castle, H. Justin Davidson, William C. Hittinger, Frederick Aley Allan.

## Corporate Officers

**Don A. Colussy**  
*President and Chief Executive Officer*  
**Robert J. Waugh**  
*Executive Vice President and Chief Operating Officer*  
**G. Vern Diedrick**  
*Executive Vice President and Chief Financial Officer*  
**John A. Hollansworth**  
*Senior Vice President, Assistant to the President*  
**Bernard M. Kostelnik**  
*Senior Vice President, Law and Administration*  
**Thomas M. Brandt, Jr.**  
*Vice President and Controller*  
**Gerald R. Cioci**  
*Vice President and Treasurer*  
**Paul X. McLain**  
*Vice President, Financial Controls*  
**Ronald L. Messenheimer**  
*Vice President*  
**William R. Yeo**  
*Vice President, Human Resources*

## Operating Units

### Aerospace/Aviation

**Robert P. Terenzi, President**  
**UNC Aerospace** Norwich, CT 203/848-1511

**Robert D. Boyne, President**  
**Aircraft Corporation** Millville, NJ 609/825-6000

**Ronald L. Yates, President**  
**Pacific Airmotive Corporation** Burbank, CA 818/842-5171

**David Schermock, General Manager**  
**Aircraft Turbine Service** Bayshore, NY 516/242-4330

**Robert C. Ott, Chairman**  
**William V. Ott, President**  
**Burnside-Ott Aviation Corporation** Pensacola, FL  
 904/477-7360

### Telecommunications

**David H. Lubetzky, President**  
**TRT Communications, Inc.** Washington, D.C. 202/879-2200

### Defense

**Nicholas C. Kaufman, President**  
**UNC Naval Products** Uncasville, CT 203/848-1511

**John R. Bolliger, President**  
**UNC Geotech** Grand Junction, CO 303/242-8621

**Lawrence L. Humphreys, President**  
**UNC Nuclear Industries, Inc.** Richland, WA 509/376-7411

## Shareholder Information

### Annual Meeting

The annual meeting of the shareholders will be held at 10:00A.M. on Friday, April 24, 1987 at the Annapolis Ramada Inn, 173 Jennifer Road, Annapolis, Maryland 21401.

### Common Stock—Listed

UNC Incorporated's common stock is listed on the New York, Midwest, Pacific and London Stock Exchanges. The stock exchange symbol is UNC. The Corporation appears in the New York Stock Exchange composite listing as UNCLnc.

### Market Price Data

The principal market for the common stock of UNC Incorporated is the New York Stock Exchange. At January 30, 1987, there were 10,652 holders of record of common stock. The accompanying table sets forth the high and low prices for the Company's common stock in the periods indicated. See Note 6 of Notes to Consolidated Financial Statements for a description of restrictions on the payment of dividends.

Quarter Ended	1986		1985	
	High	Low	High	Low
March 31	\$12.63	\$ 9.25	\$10.25	\$8.75
June 30	13.63	11.33	10.50	9.13
September 30	12.75	9.83	11.25	9.63
December 31	10.83	8.75	10.75	9.25

### Transfer Agent and Registrar

Manufacturers Hanover Trust Co. is the transfer agent and registrar for UNC Incorporated Common Stock. Notices regarding changes of address, lost or stolen stock certificates and transfer of stock, other than a purchase and sale which must be handled through a broker, should be directed to Manufacturers Hanover Trust Co., Securities Holder Relations Dept., 450 West 33rd. Street, New York, NY 10001, Telephone (212)613-7147.

### Reports

Additional information, including copies of UNC's Form 10-K Annual Report filed with the Securities and Exchange Commission, and shareholder publications including Annual Reports, Quarterly Reports and Proxy Statements may be obtained without charge from Investor Relations, UNC Incorporated, 175 Admiral Cochrane Drive, Annapolis, Maryland 21401-7394, Telephone (301)266-7333.

### Investor Relations

G. Vern Diedrick, Executive Vice President and Chief Financial Officer, Telephone (301)266-9105.

### Independent Accountants

Peat, Marwick, Mitchell & Co.  
 1990 K Street, N.W.  
 Washington, D.C. 20006

Photo page 11 courtesy  
 General Dynamics

UNC Incorporated

175 Admiral Cochrane Drive

Annapolis, Maryland 21401-7394

(301) 266-7333